Tim

# PanCana

annual report
1973

# PanCana Industries Ltd.

DIRECTORS

DELMER BAIN
DALE E. FICKINGER
KENNETH G. HEFFEL
KENDALL JENNINGS
EDMUND E. KUHN
DAVID B. NICHOLSON
THOMAS H. STEVENSON
ARNOLD J. STROM

OFFICERS

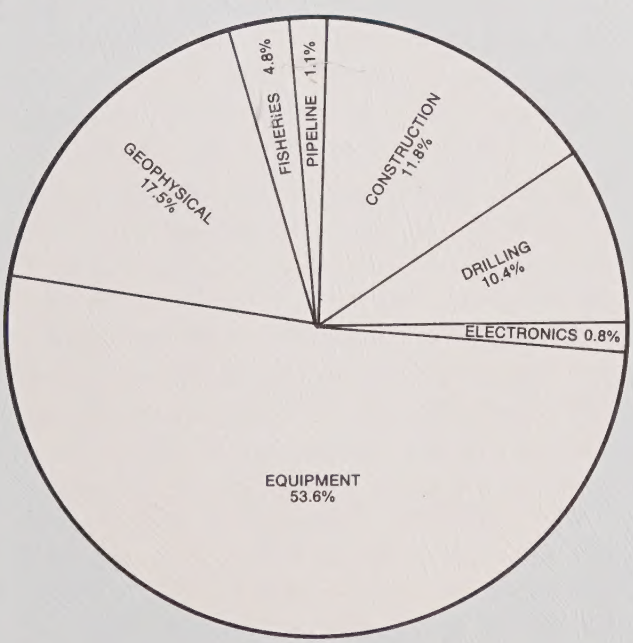
| | |
|---|---|
| KENDALL JENNINGS | President, Chairman of the Board & Chief Executive Officer |
| DALE E. FICKINGER | Vice-President |
| DAVID B. NICHOLSON | Secretary-Treasurer |

PanCana Industries is a Canadian-owned group of companies involved in Construction, Contract Drilling, Electronics, Contract Geophysical Exploration and Pipeline Construction and also with investment interests in deep sea tuna fishing. Our activities are largely orientated towards the petroleum and natural gas industry but we also work for all levels of government and for other areas of industry where our skills and resources can most effectively be deployed.

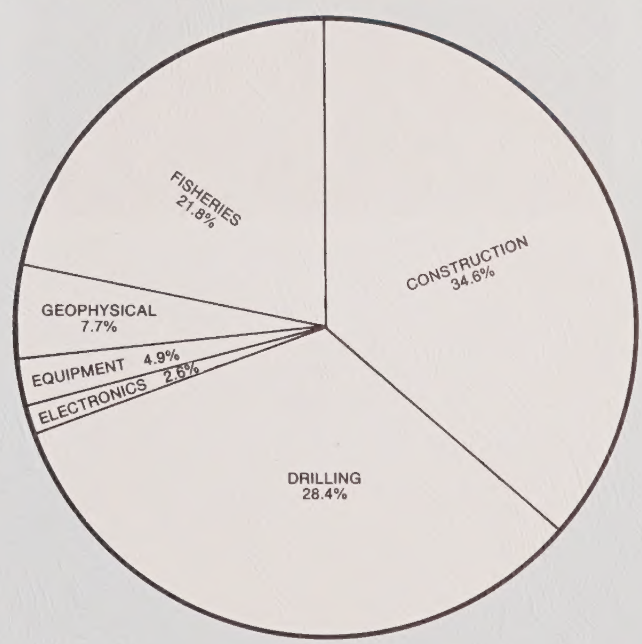
# 1973 HIGHLIGHTS

| | | 1973 | 1972 |
|---|---|---|---|
| Revenue | - from continuing operations | $13,180,141 | $11,848,346 |
| | - from discontinued operations | $14,974,773 | $12,244,848 |
| Earnings | -from continuing operations | $ 841,778 | $ 675,609 |
| | *per share* | 27¢ | 21¢ |
| | -from discontinued operations | $ 108,936 | $ 291,562 |
| | *per share* | 3¢ | 9¢ |
| Cash Flow | -from continuing operations | $ 2,278,783 | $ 1,516,145 |
| | -from discontinued operations | $ 237,507 | $ 600,390 |
| Net Working Capital | | $ 3,090,648 | $ 2,626,425 |
| Average Shares Outstanding | | 3,199,000 | 3,195,760 |
| Number of shareholders | | 1,305 | 1,286 |

REVENUE



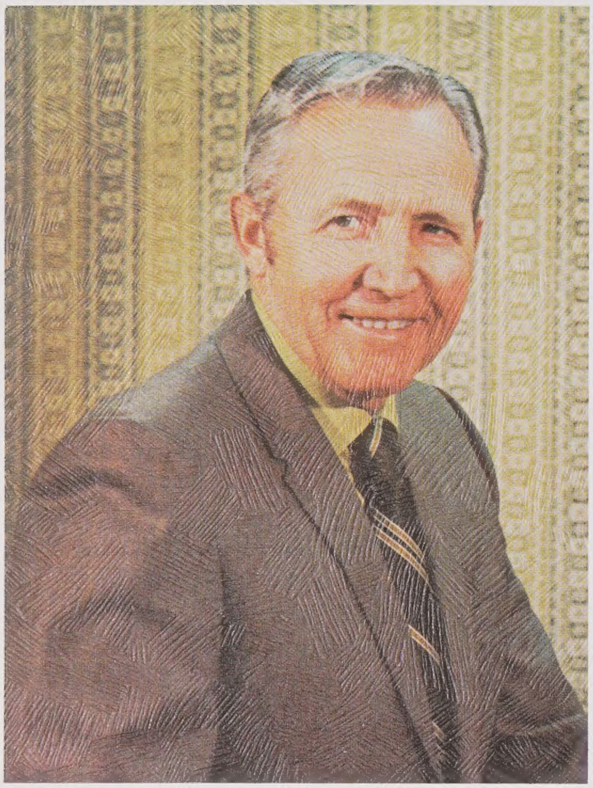

NET EARNINGS




ANNUAL MEETING

The Annual Meeting of the Company will be held at the Holiday Inn, Eighth Avenue and Sixth Street S.W., Calgary, Alberta, May 14th, 1974 at 10:00 AM.

# PRESIDENT'S REPORT TO SHAREHOLDERS



Three major events which happened at the end of 1973 or in the opening months of 1974 have overshadowed the operational results recorded in the year. These were the decision by the Board of Directors to dispose of our interest in the Equipment Division, the acquisition of a major pipeline contract by PanCana-Associated Contractors Ltd. and the announcement by Skye Resources Limited of their intention to make an offer to acquire all of the outstanding shares of PanCana Industries Ltd. My remarks in this report will largely deal with these three matters but it would be inappropriate if I did not refer to the excellent contribution to the Company's earnings by our Construction and Drilling Divisions, both of which produced record results. These achievements reflect the tremendous efforts of all our employees in these divisions who perform much of their work in the most arduous conditions.

Unfortunately the similar efforts put forward by the employees of the Geophysical Division were not rewarded by equally good results. The curtailing and postponement of exploration programmes as a result of political uncertainties, and adverse weather conditions produced a very frustrating year for the Division. Fortunately there are signs of improvement and stability in the political climate which augur better prospects for 1974.

Towards the end of 1973 the Board of Directors decided to sell the Equipment Division. This decision was made after a study of all possible means of improving the profitability had indicated no real prospect of material improvement in the short term. Our return on the capital invested had declined sharply and we considered that it was no longer commensurate with the business risk. A sale was negotiated to two of the former owners of the business on terms which I believe are advantageous to PanCana. The effect on our financial position has been reflected in a pro-forma balance sheet accompanying the Financial Statements for the year.

In December, 1973 our Pipeline Division, PanCana-Associated Contractors Ltd., was awarded a contract for the construction of 151 miles of 36" diameter gas pipeline in Ontario for TransCanada Pipelines Ltd. This is the first major contract obtained by the Division and I am pleased to be able to congratulate our Pipeline Division personnel on this tangible reward for their efforts in establishing PanCana-Associated Contractors as a major force in their industry. I am confident that this will be only the first of many major projects for the Division.

As you are probably aware, Skye Resources Ltd., a natural resources exploration company based in Calgary, announced on March 26, 1974 its intention to make an offer to purchase all the outstanding shares of PanCana Industries Ltd. I anticipate that the formal offer with full details of the terms will be mailed to PanCana shareholders towards the end of April. It would not be appropriate for me to comment on the merits of the proposed offer at this time but the Directors of PanCana will meet to consider the offer and will send their recommendations to the shareholders as soon as possible after the formal offer is received.

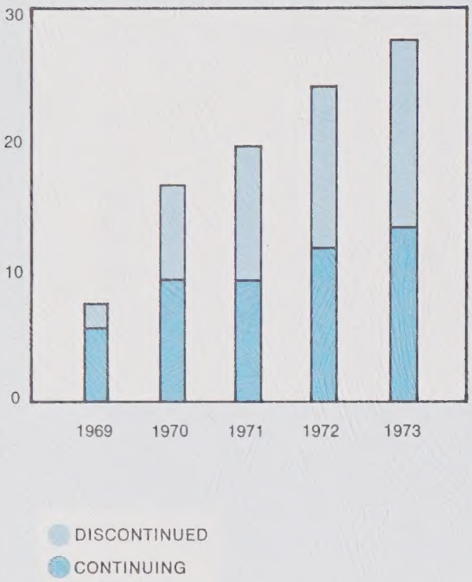
It is our intention to increase our involvement in oil and gas activities in 1974 and, with the re-investment of the proceeds from the sale of the Equipment Division and the increased pipeline activity, I anticipate improved results for your Company.

Kendall Jennings

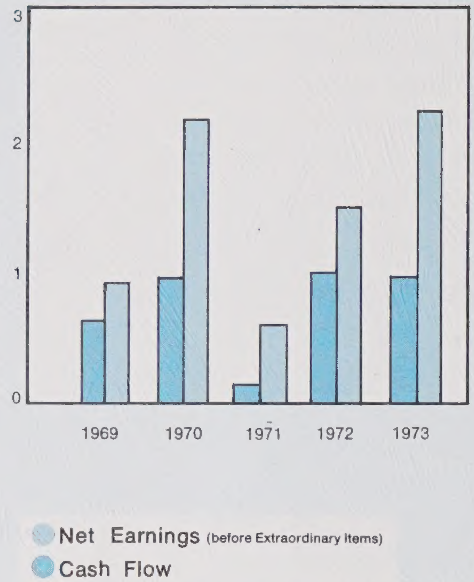
President

# FINANCIAL REVIEW

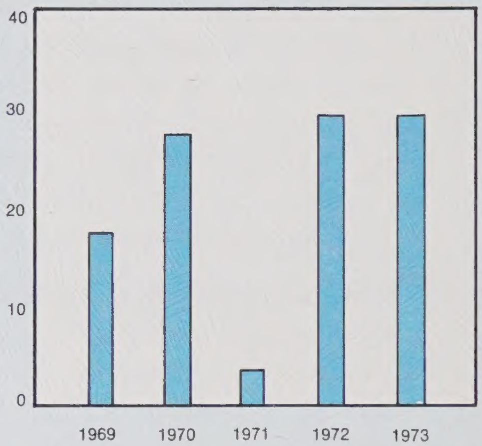
Revenue (Millions of Dollars)



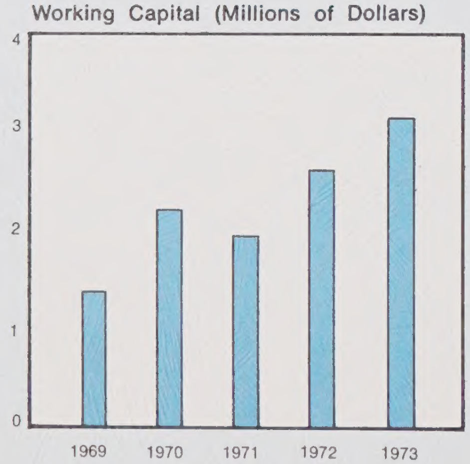

Net Earnings/Cash Flow
(Millions of Dollars)



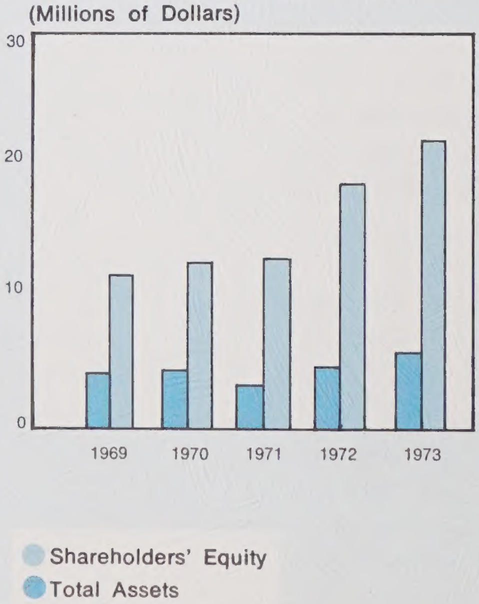

Earnings Per Share (Cents)



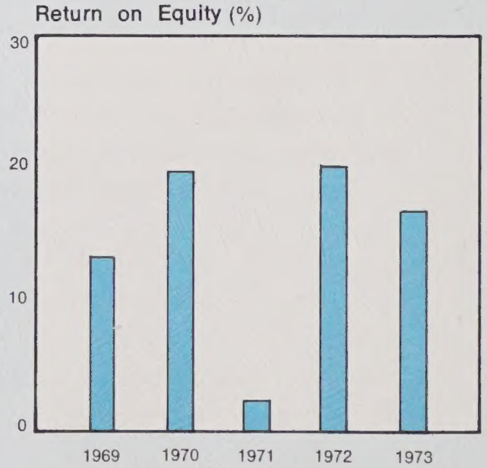

Working Capital (Millions of Dollars)




Shareholders' Equity/ Total Assets
(Millions of Dollars)



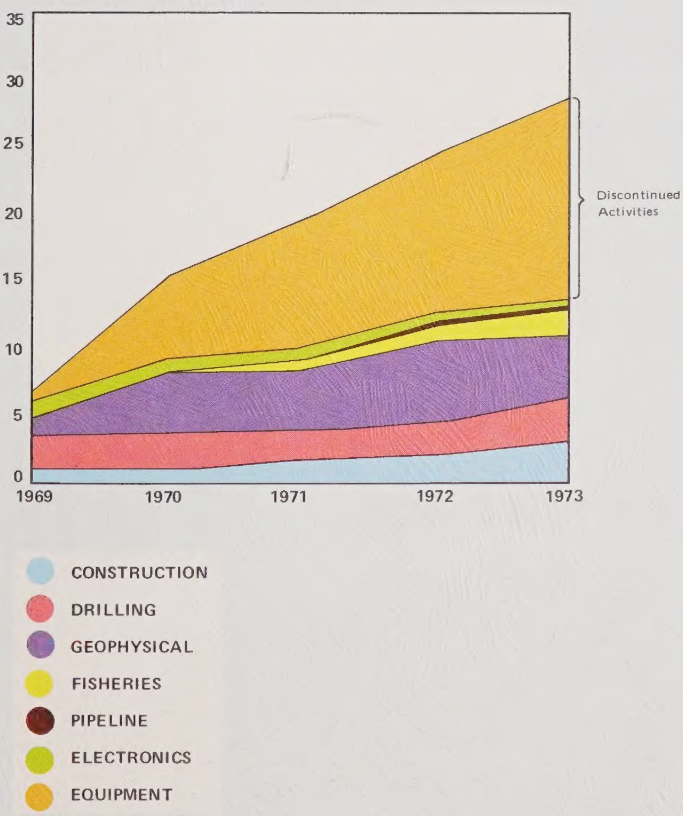

Return on Equity (%)



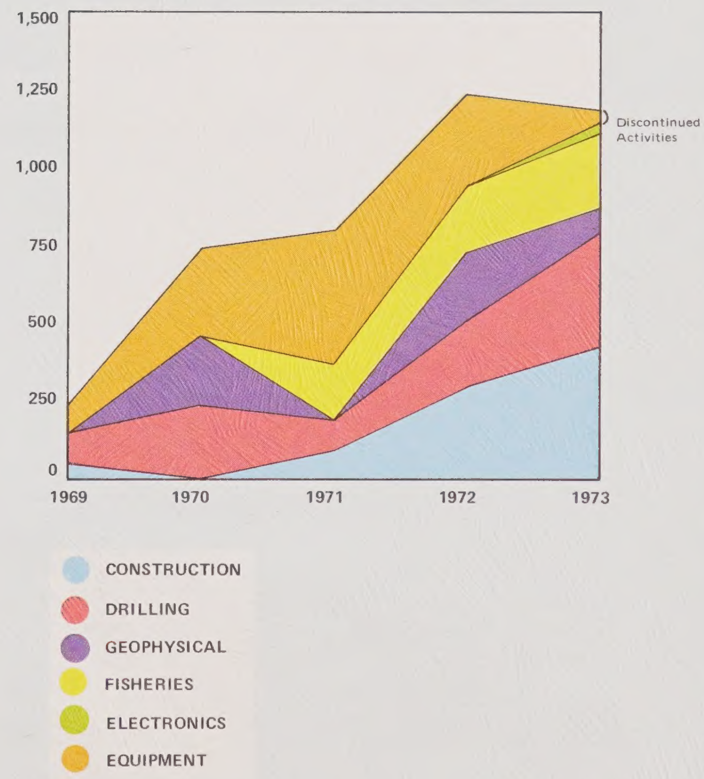
# 1973 DIVISIONAL REVIEW

The Divisional reports following show the earnings of each operating Division after eliminating intradivisional trading and before extraordinary items. Interest on long-term debt and corporate overhead have not been allocated to Divisions. Return on assets employed (total assets less current liabilities) has been calculated on the average of the assets employed at the end of each quarter. For divisional reporting it has been assumed that all Divisions, except Fisheries, are subject to full corporation tax rates.

REVENUE




CONTRIBUTION BY DIVISION



Bain Bros. construction equipment working on Mackenzie Highway extension contract.

Northern Geophysical Party No. 5 VIBROSEIS units.

# CONSTRUCTION DIVISION

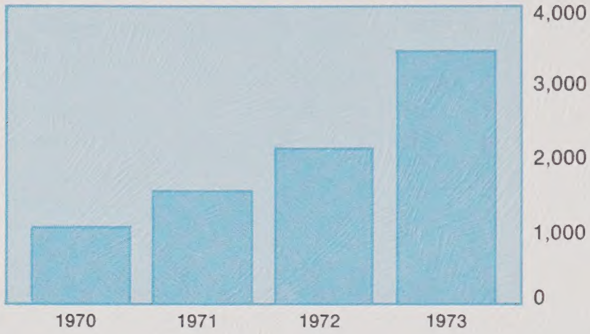
1973 was again an excellent year for the Construction Division. Revenue increased by over 50% and net earnings increased by almost 40%.

Our major contract in the year was the Federal Government Northwest Territories Mackenzie Highway Extension. We estimate that the work on the 50 miles of Highway will continue into the fall of 1974. PanCana and the Federal Government are currently negotiating the revised terms to be used in the continuation of this work and these negotiations should be completed shortly.

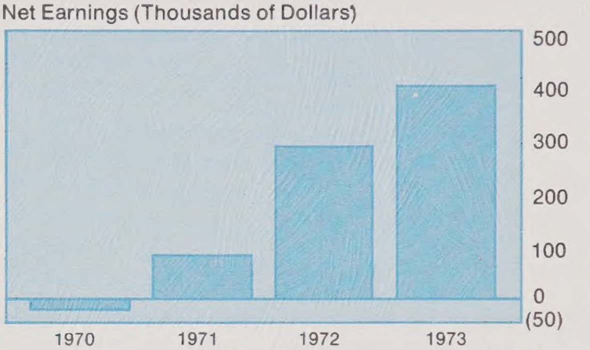
In 1973 our equipment continued working for various oil companies in the Northwest Territories providing and maintaining access roads, drilling rig locations and airstrips. In addition we again opened and maintained the Winter Toll Road north from Fort Simpson under contract to the Federal Government and private companies.

PanCana's Construction Division continues to concentrate its activity in areas associated with resource development and is pursuing work prospects associated with the search for conventional resources and also with the development of the oil reserves in the Alberta Tar Sands. We will also be exploring the opportunities which will arise in connection with the expansion of the industrial base of Alberta. We consider that the work available in the next ten years in these developing areas will provide a continuing and increasing source of earnings for this Division.

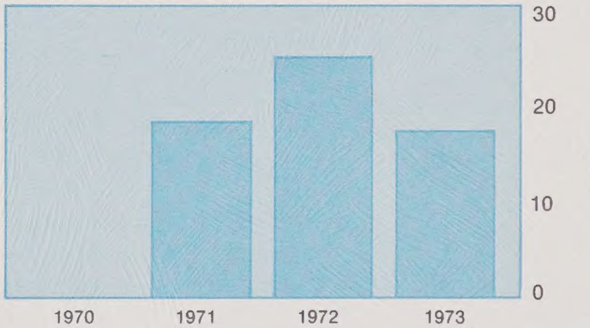
Revenue (Thousands of Dollars)




Net Earnings (Thousands of Dollars)




Return on Assets Employed (%)




## FINANCIAL SUMMARY

| | 1970 | 1971 | 1972 | 1973 |
|---|---|---|---|---|
| **Revenue** | $1,047,035 | $1,673,436 | $2,077,262 | $3,291,147 |
| **Expenses** | | | | |
| Direct contract costs | 803,870 | 1,291,506 | 1,230,265 | 2,092,587 |
| General and administration | 111,851 | 138,202 | 108,872 | 93,810 |
| Depreciation | 72,001 | 27,733 | 88,480 | 276,382 |
| Interest | 71,420 | 66,558 | 85,629 | 41,246 |
| | 1,059,142 | 1,523,999 | 1,513,246 | 2,504,025 |
| **Earnings (loss) before taxation** | (12,107) | 149,437 | 564,016 | 787,122 |
| **Taxation (recovery)** | (6,345) | 74,808 | 282,008 | 393,561 |
| **Net earnings (loss)** | $ (5,762) | $ 74,629 | $ 282,008 | $ 393,561 |
| **Assets employed** | $ 267,539 | $ 407,779 | $1,117,444 | $2,247,867 |
| **Return on assets employed** | N/A | 18.3% | 25.2% | 17.5% |

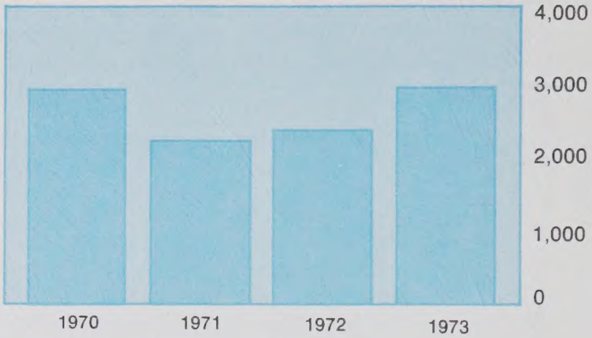
## DRILLING DIVISION

In 1973 the Drilling Division achieved the highest earnings in its history. The main contributions to these earnings came from our activity in the Northwest Territories and a strongly increased demand in the central plains area of Alberta. In addition 1973 was the first full year of work for the new Rig 2 which replaced the older smaller rig lost in 1972.

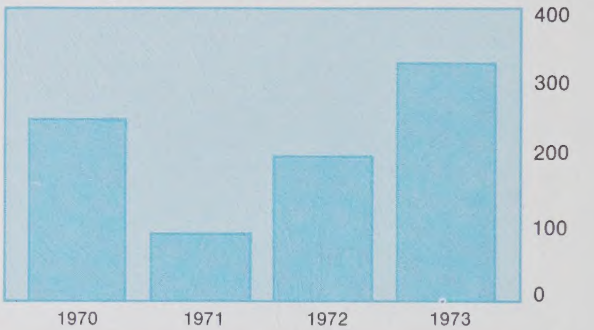
As in previous years we again made heavy investments in maintenance and upgrading of our rigs in order to maintain our competitive position. The Division has acquired land near Edmonton and a contract has been let for the construction of new shop and office premises, so that our supervisory and maintenance staff shall be provided with adequate facilities.

Our operations in the Drilling Division are affected by the same government action or inaction as affects the general oil and gas industry and we are also experiencing some supply shortages and sharply rising costs that may have some effect on our short-term profitability. However we are anticipating a steady demand for rigs in central Alberta and we believe that our experience and resources will overcome these short-term problems and we look forward to continuing satisfactory earnings in the future.

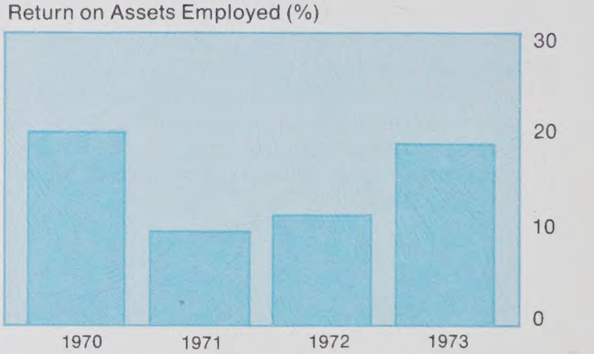
Revenue (Thousands of Dollars)




Net Earnings (Thousands of Dollars)




Return on Assets Employed (%)




### FINANCIAL SUMMARY

| | 1970 | 1971 | 1972 | 1973 |
|---|---|---|---|---|
| **Revenue** | $2,985,553 | $2,293,968 | $2,469,345 | $2,912,995 |
| **Expenses** | | | | |
| Direct contract costs | 2,122,720 | 1,767,309 | 1,733,413 | 1,910,445 |
| General and administration | 211,911 | 205,760 | 221,805 | 240,399 |
| Depreciation | 105,776 | 75,710 | 80,848 | 87,592 |
| Interest | 29,959 | 48,079 | 38,561 | 27,865 |
| | 2,470,366 | 2,096,858 | 2,074,627 | 2,266,301 |
| **Earnings before taxation** | 515,187 | 197,110 | 394,718 | 646,694 |
| **Taxation** | 270,009 | 98,673 | 197,359 | 323,347 |
| **Net earnings** | $ 245,178 | $ 98,437 | $ 197,359 | $ 323,347 |
| **Assets employed** | $1,217,895 | $1,037,118 | $1,540,089 | $1,738,288 |
| **Return on assets employed** | 20.1% | 9.5% | 12.8% | 18.6% |

# ELECTRONICS DIVISION

After a fairly slow start demand for purchase of the Texas Instruments digital seismic instruments became strong in the third and fourth quarters of 1973. In line with these sales the turnover of Input-Output units increased and both product lines which we represent showed good end results for the year.

In addition to our sales activities our service and parts operations were busy throughout the year. We also ran our usual training programmes for client staff to assist them in the efficient use and repair of the instruments in the field.

We are anticipating a continuing high level of demand for both the Texas Instruments and Input-Output product lines in 1974 and this Division should continue to be profitable.

Revenue (Thousands of Dollars)


Net Earnings (Thousands of Dollars)


Return on Assets Employed (%)


## FINANCIAL SUMMARY

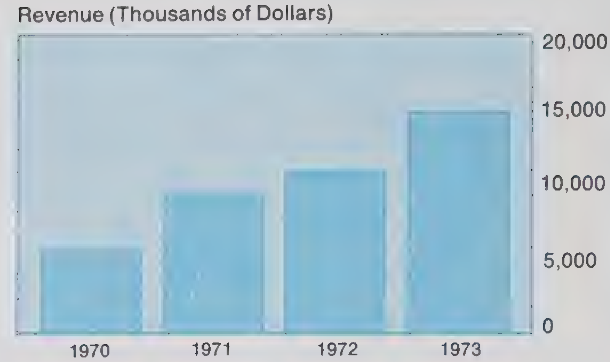
| | 1970 | 1971 | 1972 | 1973 |
|---|---|---|---|---|
| **Revenue** | $1,058,824 | $1,293,692 | $ 262,254 | $ 227,886 |
| **Expenses** | | | | |
| Cost of sales | 973,240 | 1,590,793 | 186,712 | 155,735 |
| General and administration | 153,848 | 332,885 | 125,060 | 10,571 |
| Depreciation | 11,317 | 10,052 | 17,542 | 3,092 |
| Interest | 35,305 | 42,808 | 13,354 | — |
| | 1,173,710 | 1,976,538 | 342,668 | 169,398 |
| **Earnings (loss) before taxation** | (114,886) | (682,846) | (80,414) | 58,488 |
| **Taxation (recovery)** | (60,212) | (341,833) | (40,207) | 29,244 |
| **Net earnings (loss)** | $ (54,674) | $ (341,013) | $ (40,207) | $ 29,244 |
| **Assets employed** | $ 655,151 | $ 899,759 | $ 291,793 | $ 175,833 |
| **Return on assets employed** | N/A | N/A | N/A | 16.6% |

# EQUIPMENT DIVISION

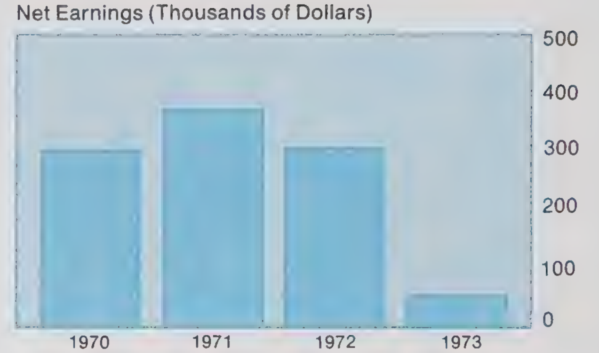
The Board of Directors of PanCana, towards the end of 1973, decided to pursue negotiations to sell the Equipment Division. This decision was made in the light of the inadequate return on the assets employed in the Division. Various measures have been tried in the past year and a half to remedy the declining margins of the Division including the strengthening of the sales force and the improvement of the Division's workshop facilities. However these changes were not effective and the basic problem of inadequate gross margins on sales of equipment remained and indeed became worse. The Company's evaluation of the prospects of the Division did not indicate any probability of an improvement to an acceptable rate of return in the short term and it was therefore decided to realize our investment.

A sale agreement, effective January 1, 1974, was signed in the early part of March, 1974 to dispose of PanCana's entire interest in the Division for approximately $5,000,000. The terms of the agreement are more fully described in the Notes to the Financial Statements.

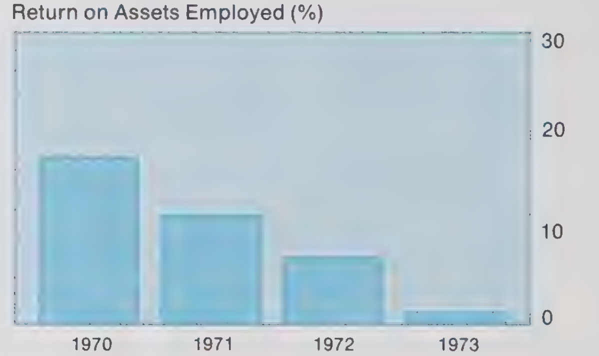
Revenue (Thousands of Dollars)




Net Earnings (Thousands of Dollars)




Return on Assets Employed (%)




## FINANCIAL SUMMARY

| | 1970 | 1971 | 1972 | 1973 |
|---|---|---|---|---|
| **Revenue** | $6,286,971 | $9,002,334 | $12,244,848 | $14,974,773 |
| **Expenses** | | | | |
| Cost of sales | 5,162,171 | 7,481,937 | 10,824,499 | 13,844,702 |
| General and administration | 304,890 | 420,981 | 413,169 | 600,017 |
| Depreciation | 28,739 | 62,046 | 70,682 | 70,319 |
| Interest | 165,475 | 302,879 | 335,849 | 348,424 |
| | 5,661,275 | 8,267,843 | 11,644,199 | 14,863,462 |
| **Earnings before taxation** | 625,696 | 734,491 | 600,649 | 111,311 |
| **Taxation** | 327,927 | 367,686 | 300,325 | 55,655 |
| **Net earnings** | $ 297,769 | $ 366,805 | $ 300,324 | $ 55,656 |
| **Assets employed** | $1,754,366 | $3,321,717 | $ 4,315,912 | $ 5,097,622 |
| **Return on assets employed** | 17.0% | 11.0% | 7.0% | 1.1% |

## GEOPHYSICAL DIVISION

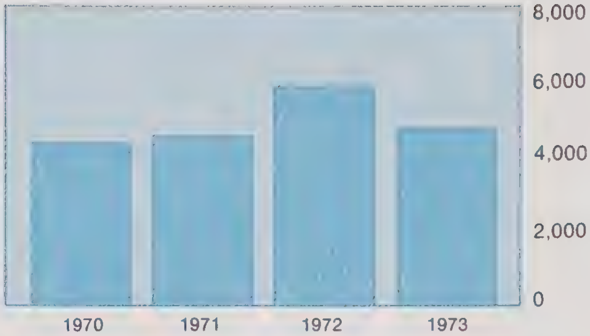
The results obtained by the Geophysical Division in 1973 were below our expectations. However, these results must be viewed against the background of industry activity, which was at its lowest level ever in Canada. Because of changing and uncertain oil and gas policies by both Provincial and Federal Governments, the Oil Exploration industry re-evaluated its position and cut back on exploration expenditures.

Unseasonal weather conditions also adversely affected the results. An earlier than normal spring break-up was followed by an unusually wet summer and fall which hampered our work and in some cases delayed summer projects until frost conditions permitted operations in the late fall.

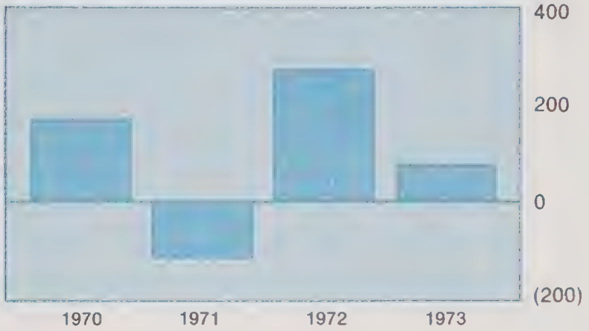
In maintaining our policy of equipment improvement and advance, 1973 saw the last conversion of our recording systems to 48-trace input and an order was also placed for delivery of a new Texas Instruments DFS IV system for the 1974 winter operating season.

An improvement in industry stance and activity became evident in the late Fall of 1973 and a continuing higher level of activity is expected in 1974. With all five crews under contract until the end of the 1974 winter season and with several summer contracts already in hand, we are hopeful that this Division will return to a much higher level of profitability in 1974.

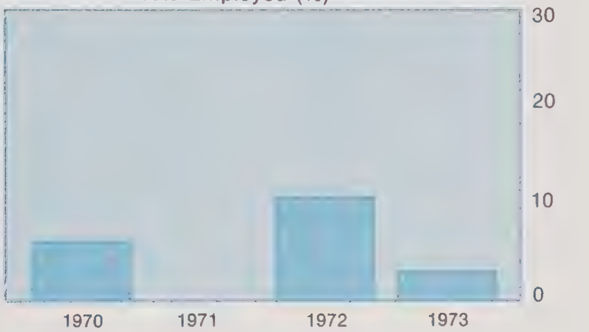
Revenue (Thousands of Dollars)




Net Earnings (Thousands of Dollars)




Return on Assets Employed (%)




### FINANCIAL SUMMARY

| | 1970 | 1971 | 1972 | 1973 |
|---|---|---|---|---|
| **Revenue** | $4,387,365 | $4,555,984 | $5,972,403 | $4,888,980 |
| **Expenses** | | | | |
| Direct contract costs | 3,437,062 | 4,163,279 | 4,837,975 | 3,990,950 |
| General and administration | 272,548 | 220,971 | 227,604 | 246,641 |
| Depreciation | 302,247 | 356,988 | 369,748 | 390,284 |
| Interest | 11,151 | 86,309 | 61,431 | 85,525 |
| | 4,023,008 | 4,827,547 | 5,496,758 | 4,713,400 |
| **Earnings (loss) before taxation** | 364,357 | (271,563) | 475,645 | 175,580 |
| **Taxation (recovery)** | 190,960 | (135,944) | 237,823 | 87,790 |
| **Net earnings (loss)** | $ 173,397 | $ (135,619) | $ 237,822 | $ 87,790 |
| **Assets employed** | $2,807,155 | $2,302,664 | $2,317,119 | $2,323,079 |
| **Return on assets employed** | 6.2% | N/A | 10.3% | 3.8% |

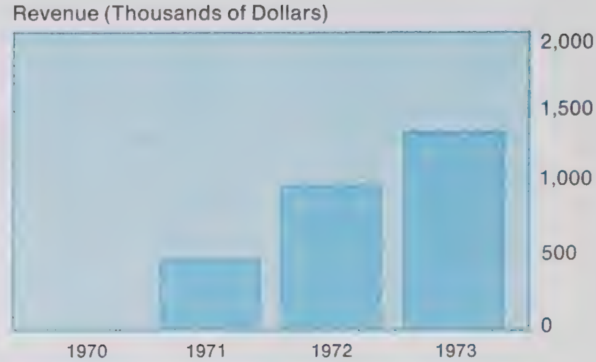
# FISHERIES DIVISION

1973 showed a steady improvement in the results of the Fisheries Division. The revenue from sale of fish increased by 35% reflecting an increase in the average price per ton of fish of $28 and also increased catches in the year. Net earnings increased by 14%.

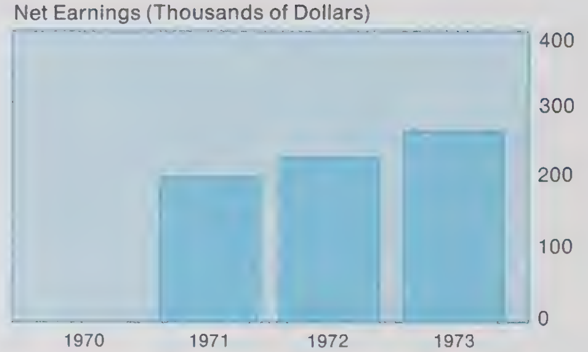
As in other industries our fishing operations were affected by inflationary increases in costs, particularly in the area of maintenance and repairs and by the first effects of the successive increases in fuel oil costs. The interest rates on the mortgage financing of the boats also increased sharply in the year and total interest charges were above 1973 despite the repayments of debt during the year.

We consider that the price of fish will continue to increase in the future at a rate sufficient to cover the increased costs of operation and that this Division will show a high rate of return on the assets employed.

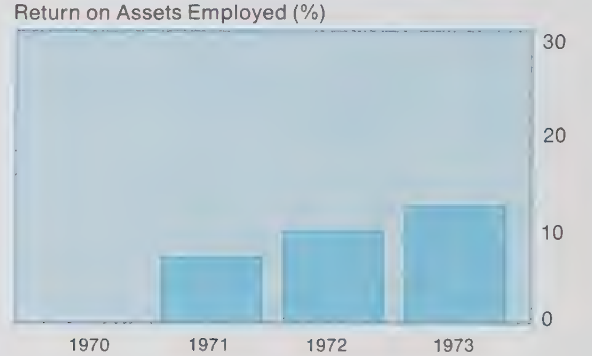
Revenue (Thousands of Dollars)




Net Earnings (Thousands of Dollars)




Return on Assets Employed (%)




## FINANCIAL SUMMARY

| | 1971 | 1972 | 1973 |
|---|---|---|---|
| **Revenue** | $ 458,517 | $ 981,799 | $1,337,274 |
| **Expenses** | | | |
| Cost of sales | 201,972 | 629,343 | 953,698 |
| General and administration | 8,118 | 4,301 | 1,400 |
| Depreciation | 45,985 | 132,441 | 134,840 |
| Interest | — | — | — |
| | 256,075 | 766,085 | 1,089,938 |
| **Earnings before taxation** | 202,442 | 215,714 | 247,336 |
| **Taxation** | 8,106 | — | — |
| **Net Earnings** | $ 194,336 | $ 215,714 | $ 247,336 |
| **Assets employed** | $2,387,600 | $2,128,374 | $2,009,560 |
| **Return on assets employed** | 8.1% | 10.1% | 12.3% |

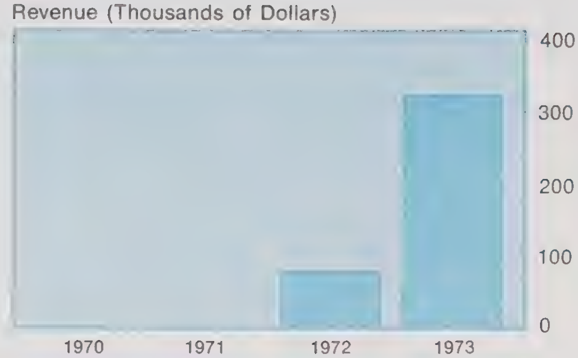
# PIPELINE DIVISION

The Pipeline Division continued to make progress in 1973 and at the end of the year our efforts were rewarded when we bid and were awarded a major pipe-laying contract.

As indicated in the 1972 Annual Report the Division bid all major pipeline construction contracts and also three testing and re-rating contracts in 1973. We were successful in obtaining a sizeable re-rating contract for TransCanada Pipelines Ltd. This contract involved work on 142 miles of 36 inch pipeline in sections in Manitoba and Northern Ontario. The contract was successfully completed on schedule in September 1973.

In December, 1973 we bid and were awarded a contract for the construction of 151 miles of 36 inch diameter gas pipeline in Ontario for TransCanada Pipelines Ltd. Work on this contract started in January, 1974 and is scheduled for completion in July of 1974.

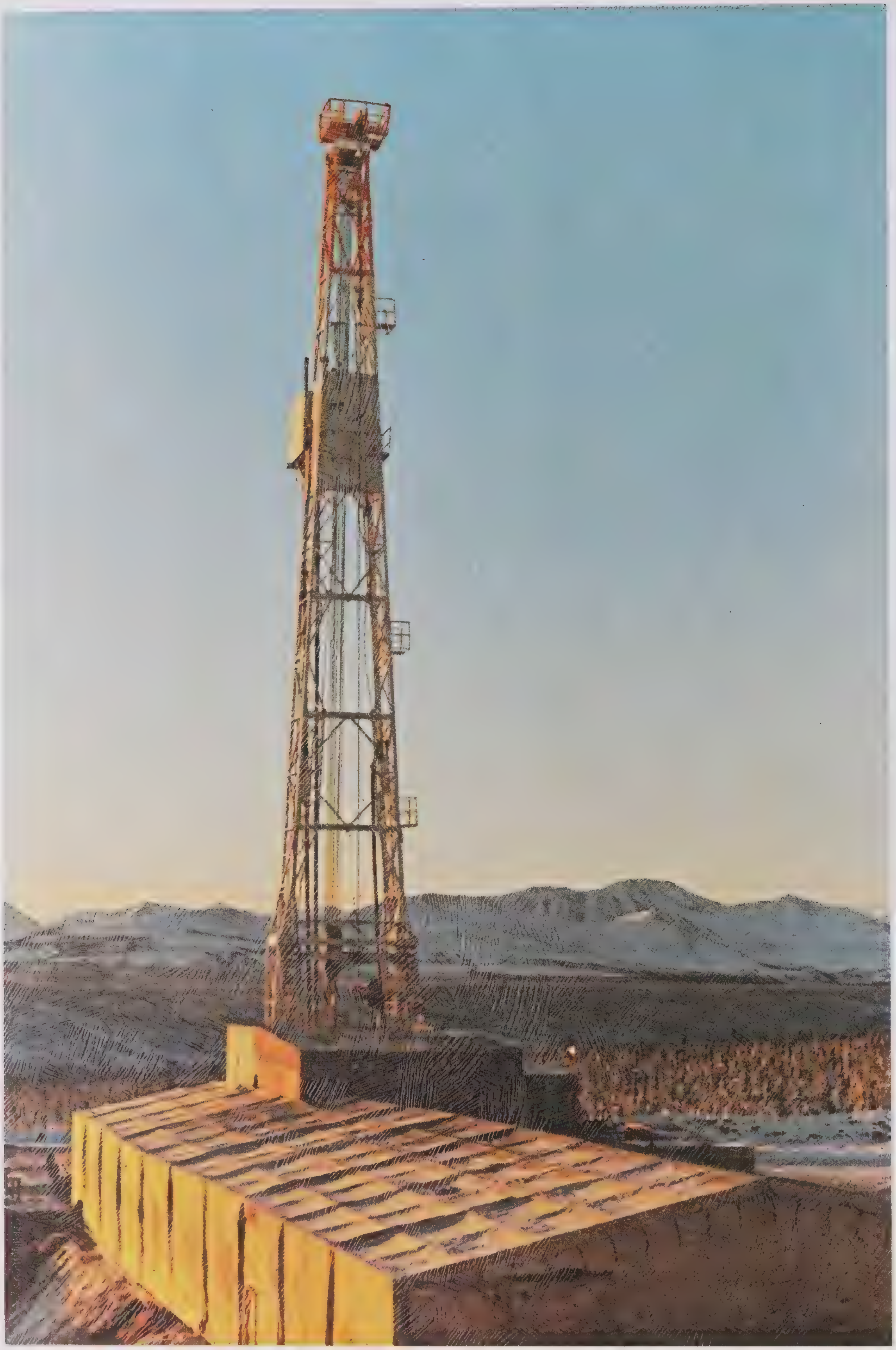
We consider that, with the current TransCanada Pipelines Ltd. contract and the other projects which are being planned in the next five to ten years, the Pipeline Division will prove to be a major asset to the activities of PanCana.





## FINANCIAL SUMMARY

| | 1971 | 1972 | 1973 |
|---|---|---|---|
| **Revenue** | $ — | $ 71,895 | $314,388 |
| **Expenses** | | | |
| Direct contract costs | — | 61,144 | 258,823 |
| General and administration | 4,614 | 64,501 | 66,875 |
| Depreciation | — | 421 | 1,277 |
| Interest | — | — | — |
| | (4,614) | 126,066 | 326,975 |
| **Earnings (loss) before taxation** | (4,614) | (54,171) | (12,587) |
| **Taxation (recovery)** | (2,309) | (27,086) | ( 6,294) |
| **Net earnings (loss)** | $ (2,305) | $(27,085) | $( 6,293) |



Jennings International Drilling Rig No. 1 in Arctic Red River Area, N.W.T.

# 1973 FINANCIAL STATEMENTS

# PanCana Industries Ltd.

AND SUBSIDIARY COMPANIES

## CONSOLIDATED STATEMENT OF EARNINGS

| | NOTES | Year Ended December 31<br>1973 | <br>1972<br>(Note 2) |
|---|---|---|---|
| REVENUE | | $13,180,141 | $11,848,346 |
| COST AND EXPENSES | | | |
| Cost of sales and direct contract costs | | 9,390,568 | 8,639,673 |
| General and administration | | 1,040,455 | 1,066,845 |
| Depreciation and depletion | 1 | 923,332 | 695,093 |
| Interest on long-term debt | | 465,855 | 396,588 |
| Other interest | | 159,094 | 117,066 |
| | | 11,979,304 | 10,915,265 |
| EARNINGS BEFORE TAX, EARNINGS FROM DISCONTINUED OPERATIONS AND EXTRAORDINARY GAIN | | 1,200,837 | 933,081 |
| DEFERRED INCOME TAXES | | 359,059 | 257,472 |
| EARNINGS FROM CONTINUING OPERATIONS | | 841,778 | 675,609 |
| EARNINGS FROM DISCONTINUED OPERATIONS, net of tax effect | 2 | 108,936 | 291,562 |
| EXTRAORDINARY GAIN on insurance claim, net of tax effect | | — | 111,073 |
| NET EARNINGS | | $ 950,714 | $ 1,078,244 |
| | | | |
| EARNINGS PER SHARE | | | |
| Continuing operations | | 27¢ | 21¢ |
| Discontinued operations | | 3¢ | 9¢ |
| | | 30¢ | 30¢ |
| Extraordinary gain | | — | 4¢ |
| | | 30¢ | 34¢ |

# PanCana Industries Ltd.

AND SUBSIDIARY COMPANIES

## CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

| | Year Ended December 31 | |
|---|---|---|
| | 1973 | 1972 (Note 2) |
| SOURCE OF FUNDS | | |
| Continuing operations, after adjustment for non-cash items | $2,278,783 | $1,516,145 |
| Discontinued operations, after adjustment for non-cash items | 237,507 | 600,390 |
| Increase in long-term debt (net) | 828,397 | 297,750 |
| Proceeds of stock options exercised | 5,500 | 4,500 |
| Other | 35,428 | 28,488 |
| | 3,385,615 | 2,447,273 |
| APPLICATION OF FUNDS | | |
| Fixed asset additions (net) | 2,921,392 | 1,753,228 |
| WORKING CAPITAL INCREASE | $ 464,223 | $ 694,045 |

## CONSOLIDATED STATEMENT OF RETAINED EARNINGS

| | NOTE | 1973 | 1972 |
|---|---|---|---|
| RETAINED EARNINGS (DEFICIT) at beginning of year | | $ (293,436) | $1,549,944 |
| Write-off of goodwill | 5 | — | 2,921,624 |
| | | (293,436) | (1,371,680) |
| Net earnings | | 950,714 | 1,078,244 |
| RETAINED EARNINGS (DEFICIT) at end of year | | $ 657,278 | $ (293,436) |

# PANCANA IND

AND SUBSIDI

**CONSOLIDATED**

| ASSETS | NOTES | 1973 | December 31 1973 Pro-forma (Note 2) | 1972 |
|---|---|---|---|---|
| CURRENT ASSETS | | | | |
| Cash | | $ 112,229 | $ 110,908 | $ 106,235 |
| Accounts receivable | | 4,880,360 | 3,297,384 | 4,048,046 |
| Amount due on sale of Equipment Division | 2 | — | 3,825,000 | — |
| Inventories | 3 | 6,907,542 | 140,029 | 6,438,994 |
| Prepaid expenses and deposits | | 300,014 | 223,264 | 255,616 |
| | | 12,200,145 | 7,596,585 | 10,848,891 |
| NOTE RECEIVABLE | 2 | — | 1,250,000 | — |
| FIXED ASSETS, at cost less accumulated depreciation and depletion | 4 | 9,434,650 | 8,606,164 | 7,538,952 |
| RESEARCH AND DEVELOPMENT, at cost less amounts written off | | 81,893 | 81,893 | 91,476 |
| OTHER ASSETS | | 112,727 | 115,738 | 138,571 |
| | | $21,829,415 | $17,650,380 | $18,617,890 |

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS:

Kendall Jennings Director

D.B. Nicholson Director

## JSTRIES LTD.

COMPANIES

**ALANCE SHEET**

| LIABILITIES | NOTES | 1973 | December 31 1973 Pro-forma (Note 2) | 1972 |
|---|---|---|---|---|
| CURRENT LIABILITIES | | | | |
| Bank indebtedness | 9 | $ 2,943,642 | $ 2,315,985 | $ 2,446,492 |
| Accounts payable | | 4,924,887 | 1,698,331 | 4,559,153 |
| Current maturities of long-term debt | 1 | 465,400 | 340,400 | 325,000 |
| Income taxes | | 114,296 | 387,164 | 141,522 |
| | | 8,448,225 | 4,741,880 | 7,472,167 |
| Deferred income taxes related to current assets | | 661,272 | — | 750,299 |
| | | 9,109,497 | 4,741,880 | 8,222,466 |
| LONG-TERM DEBT | 1,7 | 5,461,156 | 5,217,156 | 4,632,759 |
| DEFERRED INCOME TAXES | | 1,665,272 | 1,614,270 | 1,125,389 |
| | | 16,235,925 | 11,573,306 | 13,980,614 |
| **SHAREHOLDERS' EQUITY** | | | | |
| CAPITAL STOCK | | | | |
| Authorized 10,000,000 common shares of no par value | | | | |
| Issued 3,199,000 (1972 - 3,196,800) common shares | 5,8 | 4,936,212 | 4,936,212 | 4,930,712 |
| RETAINED EARNINGS (DEFICIT) | 5 | 657,278 | 1,140,862 | (293,436) |
| | | 5,593,490 | 6,077,074 | 4,637,276 |
| | | $21,829,415 | $17,650,380 | $18,617,890 |

# NOTES TO FINANCIAL STATEMENTS

## 1. ACCOUNTING POLICIES

Accounting policies followed by the Company are as follows:

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its operating divisions which are owned as follows:

| | | % |
|---|---|---|
| Construction | Bain Bros. Construction | 100 |
| Drilling | Jennings International Drilling | 100 |
| Electronics | Western Electronic Systems | 100 |
| Equipment (Note 2) | North West Commercial Sales Ltd. | 100 |
| | Northland Commercial Sales Ltd. | 100 |
| | Dorval Tractor Ltd. | 33 1/3 |
| Geophysical | Northern Geophysical Ltd. | 100 |
| Fisheries | Strom Fisheries, Inc. | 100 |
| | Ocean Blazer, Inc. | 12 1/2 |
| | Delta Fishing Company, Inc. | 20 |
| | Epsilon Fishing Company, Inc. | 15 |
| | Zeta Fishing Company, Inc. | 20 |
| | Eta Fishing Company, Inc. | 20 |
| Pipeline | PanCana-Associated Contractors Ltd. | 51 |

(b) Depreciation and Depletion

Depreciation is provided on a straight-line basis at rates which will amortize the cost of the assets over their estimated useful lives recognizing residual values where appropriate. The annual rates of depreciation on major classes of assets are

| | |
|---|---|
| Construction Equipment | 18 to 20% |
| Drilling rigs | 10 % (when working) |
| Geophysical Instrumentation | 12½% |
| Tracked vehicles | 10 % |
| Other vehicles | 20 % |
| Mackenzie Valley Toll Road | 20 % |
| Tuna seiners | 5 % |

Depletion and depreciation on producing oil and gas properties and related equipment is provided on the unit of production method under which the assets are amortized proportionately to the production of proven reserves.

(c) Current Maturities of Long-Term Debt

Where long-term debt is specifically secured by charges on revenue-producing assets and it is anticipated that future repayments of the debt will be made out of future revenue from the assets, no part of the debt is classified as a current liability. With respect to other long-term debt, principal payments due within twelve months of the balance sheet date are classified as current liabilities.

(d) Repairs and Maintenance

Drilling operations are charged with a fixed amount based on a weighted average of past years repair costs for each day that their equipment is working. Actual repairs are charged against the allowance so created.

## 2. DISCONTINUED ACTIVITIES

Effective January 1, 1974 the Company sold its Heavy Equipment Division.The operating results of that Division have been reclassified and shown separately in the Consolidated Statement of Earnings under the heading "Earnings from Discontinued Operations". These results were:

| | 1973 | 1972 |
|---|---|---|
| Revenue | $14,974,773 | $12,244,848 |
| Costs and Expenses | | |
| Cost of sales | 13,844,702 | 10,824,499 |
| General and administration | 600,017 | 413,169 |
| Depreciation | 70,319 | 70,682 |
| Interest | 267,751 | 230,136 |
| | 14,782,789 | 11,538,486 |
| Earnings before taxation | 191,984 | 706,362 |
| Taxation | 83,048 | 356,707 |
| Net earnings | $ 108,936 | $ 349,655 |

The 1972 earnings from discontinued operations shown in the consolidated statement of earnings comprise the net earnings of the Equipment Division as shown above, less the 1972 loss of $58,093 from the discontinued operations of the Electronics Division.

The consideration for the sale is $5,075,000 receivable as follows:

| | |
|---|---|
| On signing the sale contract | $ 500,000 |
| May 15, 1974 | 3,325,000 |
| April 30, 1975 | 1,250,000 |
| | $5,075,000 |

The installment of purchase price receivable on April 30, 1975 is secured by a promissory note, first mortgage security on assets having an estimated value of $1,637,500 and personal guarantees of the purchasers, and carries interest at prime Canadian bank rate plus 2% (minimum 10%). The remainder of the cash proceeds carries interest at 11% from January 1, 1974 to the date of payment.

In view of the materiality of this transaction and to provide to the shareholders a clear understanding of the financial position of the Company subsequent to this transaction a pro-forma balance sheet has been presented giving effect to the sale transaction.

3. INVENTORIES

Inventories are valued at the lower of cost and net realizable value and comprise:

| | 1973 | 1972 |
|---|---|---|
| Equipment held for sale | $6,515,602 | $6,022,527 |
| Work in progress, raw materials and miscellaneous supplies | 391,940 | 416,467 |
| | $6,907,542 | $6,438,994 |

4. FIXED ASSETS

Fixed assets comprise:

| | 1973 | | | 1972 |
|---|---|---|---|---|
| | Cost | Depreciation & Depletion | Net | Net |
| Construction equipment | $ 1,783,472 | $ 359,797 | $1,423,675 | $1,403,457 |
| Mackenzie Valley Toll Road | 219,401 | 149,353 | 70,048 | 145,007 |
| Drilling rigs and equipment | 2,403,724 | 1,396,511 | 1,007,213 | 1,044,925 |
| Geophysical exploration equipment | 3,332,006 | 1,795,888 | 1,536,118 | 1,873,808 |
| Workshop plant and equipment | 348,992 | 140,876 | 208,116 | 166,320 |
| Tuna seiners | 2,478,717 | 313,166 | 2,165,551 | 2,300,152 |
| Petroleum and natural gas properties | | | | |
| Producing | 2,411,316 | 89,210 | 2,322,106 | 322,762 |
| Non-producing | 30,275 | — | 30,275 | 30,272 |
| Land and buildings | 682,458 | 61,566 | 620,892 | 163,821 |
| Miscellaneous | 71,128 | 20,472 | 50,656 | 88,428 |
| | $13,761,489 | $4,326,839 | $9,434,650 | $7,538,952 |

5. EXCESS OF COST OF SHARES OF SUBSIDIARIES OVER THEIR BOOK VALUE

The diversity of accounting treatment accorded the various business combinations consummated by the Company in prior years resulted in lack of uniformity in reflecting goodwill in the consolidated balance sheet. In 1972, in order to achieve such uniformity the Company wrote off purchased goodwill against issued share capital.
After further consideration the Company has determined that it would have been more in accordance with then prevailing accounting practices to have made such write-off against retained earnings rather than share capital. Accordingly the treatment of the 1972 write-off has been modified to reflect the elimination of purchased goodwill against retained earnings. Total shareholders' equity is unchanged by this modification.

6. INCOME TAXES

The earnings of the Fisheries Division, which is based in Puerto Rico, are exempt from Puerto Rican tax under the provisions of the Industrial Development Act. In the event that the earnings are remitted to Canada a withholding tax of 29% becomes exigible. No provision has been made for such tax on 1973 earnings as the major part of the earnings has been utilized in the reduction of mortgage financing on the underlying fishing boats and is therefore not available for remittance. The remaining earnings of the operating fishing companies have not been distributed to the shareholders of those companies and there is no present intention of distributing these balances or of remitting them to Canada.

7. LONG-TERM DEBT

| Long-term debt comprises: | 1973 | 1972 |
|---|---|---|
| **PanCana Industries Ltd.** | | |
| Bank term loan, interest at 2% over prime Canadian bank rate, payable in varying installments to 1976 | $ 800,000 | $ 900,000 |
| Equipment loan, interest at 2% over prime Canadian bank rate, payable in varying installments in 1974 | 900,000 | 1,200,000 |
| Oil and Gas Production loan, interest at 1¼% over prime Canadian bank rate, payable in equal monthly installments in 1974 | 36,900 | 113,880 |
| Oil and Gas Production loan, (U.S. $2,000,000) interest at 1% over London Inter-bank Offer Rate, payable in U.S. funds in varying monthly installments to 1976 | 1,991,000 | — |
| Chattel mortgages, interest at 7% to 10% payable in varying installments to 1974 | 49,200 | 175,387 |
| Promissory notes, interest at 8%, payable in 1974 | 90,400 | 190,400 |
| Promissory notes, interest at 8% payable in equal annual installments to 1974 (Note 2) | 250,000 | 375,000 |
| **Northern Geophysical Ltd.** | | |
| Chattel mortgages, interest at 8½% to 15% payable in varying installments to 1975 | 103,389 | 212,820 |
| **Northland Commercial Sales Ltd.** | | |
| First mortgage, interest at 3% over Canadian bank prime rate, payable in equal monthly installments to 1980 | 119,000 | — |
| **Fisheries** | | |
| First marine mortgages, interest at ¾% over 180 day London Eurodollar offer rate, payable in equal installments to 1978 | 1,586,667 | 1,790,272 |
| | 5,926,556 | 4,957,759 |
| Less current maturities (Note 1) | 465,400 | 325,000 |
| | $5,461,156 | $4,632,759 |

Payments required in the next five years to meet installments on the above debt are:

| | |
|---|---|
| 1974 | $2,324,000 |
| 1975 | 1,306,000 |
| 1976 | 1,308,000 |
| 1977 | 239,000 |
| 1978 | 726,000 |

8. CAPITAL STOCK

During the year 2,200 shares were issued to employees for cash of $5,500 under the terms of the employees' stock option plan. Options in respect of 5,800 shares were cancelled and at December 31, 1973 there remained outstanding options to employees in respect of 117,900 shares at $2.50 per share exercisable in varying amounts to 1976.

9. ASSETS SUBJECT TO LIEN OR PLEDGE

The bank indebtedness and term loan are secured by a general assignment of book debts and a floating charge debenture. This debenture contains certain restrictions as to the maintenance of minimum working capital and requires the approval of the bank prior to the payment of any dividend. The equipment loan is secured by chattel mortgages on specific construction equipment. The Company's oil and gas properties are charged to secure the oil and gas production loans and certain seismic exploration equipment and vehicles are subject to chattel mortgages.

10. STATUTORY INFORMATION

In 1973 the Company and its subsidiaries paid $173,458 (1972 - $290,166) remuneration to directors, officers and senior employees.

11. CONTINGENT LIABILITIES

The Company is contingently liable in respect of finance contracts subject to recourse in the amount of $2,300,000.

*Riddell, Stead & Co.*

CHARTERED ACCOUNTANTS 407 Eighth Avenue S.W. Calgary, Alberta T2P 1E5

## AUDITORS' REPORT

To the Shareholders
PanCana Industries Ltd.

We have examined the consolidated balance sheet of PanCana Industries Ltd. and its subsidiaries as at December 31, 1973 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination of the financial statements of PanCana Industries Ltd. and those subsidiaries of which we are auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. In respect of the company's equity in the Fisheries Division of which we are not the auditors, we have carried out such enquiries and examinations as we considered necessary in order to rely on the report of the other auditors for purposes of consolidation.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

March 14, 1974.

Riddell, Stead & Co

## HEAD OFFICE

736 Eighth Avenue S.W.
Calgary, Alberta T2P 1H4

## DIVISION OFFICES

Bain Bros. Construction
8525 Argyll Road
Edmonton, Alberta T6C 4B2

Gen. Manager — D. Bain

Jennings International Drilling
736 Eighth Avenue S.W.
Calgary, Alberta T2P 1H4

Gen. Manager — W. R. Kelsay

Western Electronic Systems
5826 Burbank Road S.E.
Calgary, Alberta

Gen. Manager — W. Otto

North West Commercial Sales Ltd.
10940 - 166A Street
Edmonton, Alberta T5P 3V5

Gen. Manager — E. E. Kuhn

Northland Commercial Sales Ltd.
20108 Logan Avenue
Langley, British Columbia

Gen. Manager — I. Eisler

Dorval Tractor Ltd.
2799 Mpee. Saint Remi
Dorval, Quebec

Gen. Manager — R. Dawes

Northern Geophysical Ltd.
5911 - Fifth Street S.E.
Calgary, Alberta T2H 1L5

Gen. Manager — D. G. Propp

Strom Fisheries Inc.
San Juan
Puerto Rico

PanCana-Associated Contractors Ltd.
736 Eighth Avenue S.W.
Calgary, Alberta T2P 1H4

Gen. Manager — W. L. Daniels

## AUDITORS

Riddell Stead & Co.
407 Eighth Avenue S.W.
Calgary, Alberta

## TRANSFER AGENT AND REGISTRAR

Montreal Trust Company — Calgary, Montreal, Toronto, Winnipeg, Regina and Vancouver.

## SHARES LISTED

Common shares listed on Toronto Stock Exchange

Designed & Printed in Canada By Hi-Lite Printing Ltd., Calgary, Alberta, Canada

**HEAD OFFICE:**

736 Eighth Avenue S.W.,
Calgary, Alberta T2P 1H4

**CONSTRUCTION DIVISION**

Bain Bros. Construction
8525 Argyll Road,
Edmonton, Alberta T6C 4B2

**DRILLING DIVISION**

Jennings International Drilling
736 Eighth Avenue S.W.
Calgary, Alberta T2P 1H4

**ELECTRONICS DIVISION**

Western Electronics Systems
5826 Burbank Road S.E.
Calgary, Alberta T2H 1Z3

**FISHERIES DIVISION**

Strom Fisheries Inc.
San Juan
Puerto Rico

**GEOPHYSICAL DIVISION**

Northern Geophysical Ltd.
5911 - Fifth Street S.E.,
Calgary, Alberta T2H 1L5

**PIPELINE DIVISION**

PanCana-Associated Contractors Ltd.
(Joint Venture)
736 Eighth Avenue S.W.,
Calgary, Alberta T2P 1H4



PANCANA INDUSTRIES LTD.
400 - 736 - 8th Avenue S.W.
Calgary, Alberta, Canada
T2P 1H4

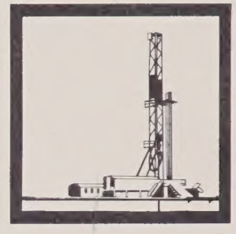
Mr. R.J. Doyle,
TORONTO GLOBE & MAIL,
140 King Street West,
Toronto, Ontario, M5H 1J5.

CALGARY IX 1974 ALTA

USE POSTAL CODES
UTILISEZ LES CODES POSTAUX

CONSTRUCTION

DRILLING

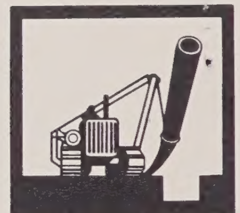


ELECTRONICS

FISHERIES

GEOPHYSICAL

PIPE LINE



# PANCANA INDUSTRIES LTD.

## INTERIM REPORT

FOR THE 6 MONTHS ENDED JUNE 30, 1974

**TO THE SHAREHOLDERS OF PANCANA INDUSTRIES LTD.**

In the first six months of 1974 the results of the Exploration and Fisheries Divisions have been totally outweighed by the necessity of providing for a substantial loss on the Pipeline contract which we are currently performing for TransCanada Pipelines Ltd. At the end of the first quarter we provided for our losses on the winter operation of the contract but, at that time, we were hopeful that the summer work would produce some off-setting profit. However, we were faced with the wettest spring weather period for the last thirty-nine years in the area north of Toronto where the summer contract was due to start. This resulted in a long delay in starting the summer work and poor progress in the first few weeks of operations. In the two months of May and June there was in excess of ten inches of rainfall compared with the average in this period of five inches. Because of the heavy costs which are strictly related to the time taken on a contract all hope of a profitable summer rapidly disappeared and we are once again faced with the necessity of providing for a very heavy loss on the second part of the contract. In addition to the problems caused by abnormal weather conditions we have also been hurt by the inflation of costs on all our outside purchases. While a normal contingency for inflation was taken into account in our bid, the actual amount of inflation has far exceeded this contingency provision.

All other Divisions of the Company have been profitable in the first six months of 1974 and the results of all these Divisions were close to our budgeted expectations. We have also recorded an extraordinary profit of $422,000, equivalent to 13¢ per share, on the sale of the Heavy Equipment Division, which sale was closed on May 15, 1974.

As of June 30, 1974 we had received approximately $3,800,000 of the proceeds of sale of the Heavy Equipment Division and we have utilized a significant part of these funds in reducing our long term debt.

It appears that the operations for the remainder of 1974 will be running at a higher level of activity than in the second half of 1973 and we are hopeful that the loss reported from operations in the first six months will be reduced by year end.

Kendall Jennings
President

## PANCANA INDUSTRIES LTD.
## AND SUBSIDIARY COMPANIES
### Consolidated Statement of Earnings
(Unaudited)

| | Six Months Ended June 30 1974 | 1973* |
|---|---|---|
| REVENUE | $11,509,000 | $ 7,453,000 |
| COSTS AND EXPENSES | | |
| Cost of Sales and Direct Contracts Costs | 10,266,000 | 5,075,000 |
| General and Administrative | 545,000 | 578,000 |
| Depreciation and Depletion | 699,000 | 466,000 |
| Interest | 437,000 | 287,000 |
| | 11,947,000 | 6,406,000 |
| EARNINGS (LOSS) BEFORE TAX, EARNINGS FROM DISCONTINUED OPERATIONS AND EXTRAORDINARY GAIN | (438,000) | 1,047,000 |
| INCOME TAXES (RECOVERY) | (220,000) | 398,000 |
| EARNINGS (LOSS) FROM CONTINUING OPERATIONS | (218,000) | 649,000 |
| EARNINGS FROM DISCONTINUED OPERATION, net of tax effect | — | 115,000 |
| EXTRAORDINARY GAIN, net of tax effect | 422,000 | — |
| NET EARNINGS | $ 204,000 | $ 764,000 |
| EARNINGS PER SHARE | | |
| Continuing Operations | (7¢) | 20¢ |
| Discontinued Operation | — | 4¢ |
| Extraordinary Gain | 13¢ | — |
| | 6¢ | 24¢ |

### Consolidated Statement of Source and Application of Funds
(Unaudited)

| | 1974 | 1973* |
|---|---|---|
| SOURCE OF FUNDS | | |
| Continuing Operations after adjustment for Non-Cash Items | $ 268,000 | $ 1,181,000 |
| Discontinued Operation after adjustment for Non-Cash Items | — | 176,000 |
| Increase in Deferred Revenue | — | 41,000 |
| Proceeds of Stock Option | — | 5,000 |
| Proceeds of Sale of Equipment Division | 5,075,000 | — |
| Less Working Capital of that Division | (4,147,000) | — |
| | $ 1,196,000 | $ 1,403,000 |
| APPLICATION OF FUNDS | | |
| Fixed Assets Additions (net) | 751,000 | 588,000 |
| Reduction of Long-Term Debt | 1,461,000 | 542,000 |
| Other | 10,000 | 8,000 |
| | 2,222,000 | 1,138,000 |
| Working Capital (Decrease) Increase | $ (1,026,000) | $ 265,000 |

*The operating results of the Equipment Division have been reclassified and shown separately under the heading - "Earnings From Discontinued Operation".